THE FINANCIAL EXPRESS

'If you want safety, keep your money under your mattress'

Posted online: Mar 25, 2007 at 0052 hrs

Amidst the volatile markets, investors are trying to assess the markets and find out investment opportunities. Ajit Dayal, director, Quantum Asset Management company, shares his views on some of the issues raised by **FE Investor Bureau**. *Excerpts*:

How do you see the institutional funds flowing, in or out of India, over the next six months?

The flow of foreign money in the next six months is anybody's guess as our policy has attracted mostly short-term money via P-Notes. However, over the next ten years, I am confident that India will be a huge beneficiary of serious, long-term money. So far, we have received about $50 billion of FII money. Over a ten-year period we could see about $100 billion of long-term money.

Where do you see Indian markets against their global peers on valuation metrics post the recent correction?

There are two valuations in India: the valuation of the companies in the narrow BSE-30 Index and the valuation of the other companies that may be part of the broader BSE-200 Index. Companies bought by the fund managers of the Quantum Long Term Equity Fund give exposure to a portfolio of stocks across diverse sectors and are typically trading at a P/E ratio of 15x March 2008 earnings. We believe this will see a 15-20% growth in profits over the next few years and that is attractive to us. But, the index trades at maybe 20x earnings for a similar rate of growth in profits. And that looks expensive when compared to the broader emerging markets universe. In May 2006, everything was expensive and the Quantum Long Term Equity Fund was in 65% cash going into the market fall. By February 2007 there was a lot of value outside of the Top 5 stocks in the BSE-30 Index.

Do you see the concept of margin of safety and payback coming back to the fore, post the massive correction?

Well, corrections will come and go. And bull markets and fairy-tale rates of return will find their way into the daily news bulletins of the general news channels. The sensible investor will be disciplined and not worry about the unpredictable and irrational movements in the share process that occur every day, every week, and every month. A sensible investor knows that businesses go through business cycles and at the end of the day what matters is identifying the right businesses and the right people to run those businesses - an easy thing to say but difficult to implement. The Quantum Long Term Equity Fund is a mutual fund like the other 300 plus equity schemes that exist in the country but it is different in its approach. Gathering assets to show how large the AUM is a meaningless number from an investor's viewpoint; showing changes in monthly NAV's is a paradise for short-term investors and a minefield for the long-term investor. Risk is controlled at the stock selection level and the approach to investing. We must take calculated risks and estimate potential returns. If you want safety, keep your money under your mattress. If you wish to see some semblance of decent risk-adjusted returns, talk to us.

How do you find the rationale of investing in high beta stocks post the massive correction?

Beta is a backward looking number. It tells me how much a stock has moved based on some past movement. We do not buy stocks (or avoid them) based on their beta. We look for value - where is the return on my investment more than the risk. Beta and other numbers like risk standard deviation try to make the subject of investments into a science. We think of investments as an art, the art of common sense. The ability to step away from the noise created by a hyperactive press and avoid the hyperactive investors who treat the markets as a casino requires the luxury of time horizons - of looking at the long term. We were probably the first mutual fund that - in the few ads we released - state that investors looking to make short term returns should stay away from the Quantum Long Term Equity Fund.

At the current levels of the markets do you see any scope for defensive investors? Also provide us the reasoning behind it.

A "defensive" investor is one who recognises that there are times to buy into the markets aggressively and there are times to wait on the sidelines with some minimal exposure to the market. At these index levels, the larger index stocks may not be cheap but there is great value in the market today. The Quantum Long Term Equity Fund has a low level of cash and the fund managers have a shopping list - if they get more money in, they know exactly what to buy.